

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 525 - SB 700

April 1, 2011

SUMMARY OF BILL: Removes major medical equipment from the definition of health services. Removes the application of Certificate of Need (CON) to health care services and major medical equipment and the change in location or replacement of a facility or major medical equipment. Removes the registration and reporting requirement with the Health Services and Development Agency applicable to major medical equipment. Adds the Department of Health, the Department of Mental Health, and the Department of Intellectual and Developmental Disabilities to those departments and agencies to whom the state health plan must be submitted for approval.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$232,300

Increase State Expenditures – \$3,105,400

Increase Federal Expenditures – \$3,367,700

Increase Local Expenditures – \$485,400*

Assumptions:

- According to the Health Services and Development Agency (HSDA), the proposed legislation will eliminate significant categories of activities subject to CON review. Based on information provided by the Agency, HSDA has received an average of \$232,254 in application fees for the equipment and services eliminated by this bill $[(\$344,833 \text{ in FY06-07} + \$312,180 \text{ in FY07-08} + \$85,278 \text{ in FY08-09} + \$186,724 \text{ in FY09-10}) / 4]$. It is reasonably estimated that the total recurring decrease in state revenue will be \$232,254.
- A study completed on the Ford Motor Company's expenditures for Magnetic Resonance Imaging (MRI) indicates that MRI utilization and per capita expenses were at least ten percent lower in states that had adopted a CON process. Similar per capita cost variations were evident for hospital inpatient and outpatient utilization and for coronary artery bypass surgery. The lowest cost areas were in states with a CON program while the higher cost areas were not subject to CON.

- It is reasonably estimated that, as a result of this bill, per capita expenses will increase by five percent.
- According to the Department of Finance and Administration, the Department expended \$47,904,897 for MRIs, CAT and PET scans for the three state sponsored public sector plans in 2009. Of that, \$28,026,378 was expended for the State Employee Plan, \$15,647,221 for Local Education Plan, and \$4,231,298 for Local Government Plan.
- Under the State Employee Plan, a five percent increase in the cost of the three imaging procedures will equal \$1,401,319, of which 76 percent, or \$1,065,002, will be state-funded, four percent, or \$56,053, will be federally-funded, and 20 percent, or \$280,264, will be employee-funded.
- Under the Local Education Plan, a five percent increase will equal \$782,361, of which 45 percent, or \$352,062, will be state-funded, 35 percent, or \$273,826, will be locally-funded, and 20 percent, or \$156,473, will be employee-funded.
- Under the Local Government Plan, a five percent increase will equal \$211,565. The state does not make financial contributions to the operation of the Local Government Plan.
- The precise amount of funds expended by the Bureau of TennCare each year for MRIs, CAT and PET scans is unknown. It is reasonably estimated that expenditures are at least \$100,000,000. A five percent increase in the cost of the three imaging procedures will equal \$5,000,000, of which 33.767 percent, or \$1,688,350, will be state-funded, and 66.233 percent, or \$3,311,650, will be federally-funded.

*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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